

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00
COME-00 DODE-00 EB-08 FEAE-00 FPC-01 H-01 INR-07
INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06
OES-06 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 IGA-02
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FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC 2239

C O N F I D E N T I A L TEHRAN 3614

E.O. 11652: GDS

TAGS: BEXP ENRG IR

SUBJ: OIL-FOR-ARMS BARTER:GENERAL DYNAMICS

1. GROUP OF VISITING GENERAL DYNAMICS OFFICIALS, LED BY
EXEC VICE PRES JAMES BEGGS, MET WITH EMBOFF TODAY FOR
EXCHANGE OF VIEWS AND INFORMATION. PRINCIPAL TOPICS WERE PROPOSED
F-16 SALE AND OIL BARTER.

2. G D SAID THAT CURRENT PLANS, WHICH WERE DEVELOPED IN RESPONSE
TO GOI REQUEST THAT REVENUE GENERATED BY OIL EXPORTS ROUGHLY PARALLEL
THE LEVEL AND PACE OF CONTRACTUAL PAYMENTS TO G D, CALL FOR A
BARTER DEAL LASTING 7-8 YEARS. OFF-TAKE DURING THE FIRST YEAR
WOULD BE 45,000 BPD AND IT WOULD PEAK AT 150,000 BPD ABOUT THE
FOURTH YEAR. ACCORDING TO GD, THE BARTER ARRANGEMENTS WOULD
SERVE TO GENERATE APPROXIMATELY \$3 BILLION -- PRESUMABLY 160 AIR
CRAFT.

3. GD SAID THAT THEY HAD SUBSTANTIALLY REACHED AGREEMENT WITH
ASHLAND OIL ON THE OPERATIONAL MECHANICS OF HOW THE BARTER WOULD
WORK. ASHLAND BELIEVES THAT IT COULD USE ALL OF THE OIL AVAILABLE
FROM THE F-16 BARTER IN ITS OWN SYSTEM. HOWEVER, GD AND ASHLAND
HAVE AGREED THAT BOTH FIRMS WOULD SHARE THE LOSS

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EQUALLY IF ASHLAND WERE TO BE 1. UNABLE TO USE ALL OF THE
OIL, AND 2. REQUIRED TO SELL EXCESS OIL AT A LOSS TO A THIRD
PARTY.

4. STICKING POINT CONTINUES TO BE PRICE AND TERMS ON THE OIL.
GD THOUGHT THAT THE SHAH HAD AGREED TO APPLY THE TERMS OF
THE BAC RAPIER MISSILE/SHELL BARTER DEAL DURING THE MAY VISIT TO

IRAN OF GD BOARD CHAIRMAN DEVID LEWIS.
HOWEVER, GD IS NOW INFORMED THAT IRAN WILL NOT PROVIDE OIL
PRICE DISCOUNTS. GD HAS PROPOSED THAT F-16 CONTRACT PRICE
BE INCREASE BY 2-1/2 PERCENT SO THAT THEY CAN PROVIDE
"SWEETENING" TO LIFTER OF THE OIL, BUT GOI RESPONSE THUS FAR
HAS BEEN THAT CONTRACT FOR AIRCRAFT MUST STAND ON ITS OWN MERITS
AND CANNOT BE INFLATED IN ORDER TO BENEFIT OIL PURCHASER.

5. GD OFFICIALS INFERRED THAT THEY MIGHT BE WILLING AND
ABLE TO BUILD IN AN ADDITIONAL MARGIN IN F-16 CONTRACT PRICE,
WHICH COULD BE USED TO COMPENSATE OIL PURCHASER, EXCEPT FOR
THE STRICTURES. SPECIFICALLY, GD
SAID THAT THEIR ABILITY TO TAILOR A CONTRACT TO MAKE SOME
ALLOWANCE (IN TERMS OF PRICE) FOR ADDED COSTS, COMPLICATIONS,
ETC., OF BARTER WAS NEGATED BY CONTINUED DOD ADHERENCE TO THE
COMMITMENT MADE BY FORMER PRES NIXON TO THE SHAH THAT IRAN
COULD BUY US ARMS FOR BASICALLY THE SAME PRICE PAID BY DOD.

6. GD CONTINUES TO HAVE SERIOUS RESERVATIONS ABOUT
WHETHER THEY CAN WORK OUT A BARTER DEAL BUT THEY PLAN, FOR
OBVIOUS REASONS, TO CONTINUE TRYING. NEXT STEP IS PRESENTATION
OF A REVISED LOA (LETTER OF OFFER AND ACCEPTANCE) TO GOI AND
GD INFORMED US THAT REVISED DOCUMENT SHOULD BE READY IN
ABOUT A WEEK.
MIKLOS

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